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WeeklyTAKE

BACK IN BUSINESS: LESSONS AND INSIGHTS FROM AUSTRALIA'S RETURN TO THE OFFICE
W/ CARMEL HOURIGAN AND AMANDA STEELE [05.04.2021]

Spencer Levy

I'm Spencer Levy and this is The Weekly Take. As companies all over the world try to figure out how to return to the office, we give you a way to see into the future. We head to the Land of Oz, Australia, where the pandemic response has been so successful that life and business seems to be months ahead of the rest of the world. On this episode, a conversational Walkabout with a pair of real estate leaders and their global lessons for the future of office.

Carmel Hourigan

This is one time when being an island country has been a fantastic outcome for us, and we have been able to really get control of the pandemic in a very quick way.

Spencer Levy

That's Carmel Hourigan, the Office CEO of Charter Hall, a 50 billion dollar fund manager with interests in all sectors across Australia with more than 22 years of experience in the public and private markets, Carmel leads Charter Hall's office sector practice. And she joins us from her office, of course, in downtown Sydney.

Amanda Steele

We're very fortunate in Australia that we are back into the office. What you realize is that more infectious than COVID is collaboration. People love to be back together and collaborating together.

Spencer Levy

And that's Amanda Steele, a CBRE executive managing director from her office in the Sydney Central Business District as well. Amanda leads a team of 850 people in Australia and New Zealand, CBRE's Property Management Pacific Office Group. With apologies in advance for my attempts at Aussie pop culture references, we'll examine the nation's pandemic response and the office sector's perspective on everything from staff morale and competence to changes in physical space and more. We'll also dig into Australia's role in the region as a player in the global economy. We'll talk about opening up the CBD, investing in ESG and listening to INXS. Sorry, I couldn't resist. Coming up, we're talking men at work and women at work, all kinds of people that work in the land down under. That's right now on The Weekly Take.

Welcome to The Weekly Take. And this week, we are delighted to be joined by two of the leaders of the Australian real estate industry. So, Kamal, let's just start from the beginning. Australia, New Zealand has been imperfect in dealing Carmel the virus. That's the bad news. The good news is they've been way better than most of the world, including the United States, and that has positively impacted people coming back to the office. Tell us about that.

Carmel Hourigan

Yeah I totally agree with that. I mean, this is one time when being an island country has been a fantastic outcome for us and we have been able to really get control of the pandemic in a very quick way. One of the key areas and reasons for that is that the government here has been very quick in its response and it's also been coordinated across all states. And I think that is where Australia has a different experience than most around the

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world. And that means we have been able to get back to work sooner than others. It's also been slow in terms of the uptake. And what we have seen gradually over the last nine months is a tick up in the numbers of people coming back to work. And that has happened in line with what's happened with public transport restrictions and also in terms of some of the key tenants, such as government, for example, the public sector in Australia earlier this year in sort of a month ago in some states starting to say, OK, we're going to bring our people back to the office. Now, you are coming back. And when you start to give those guidelines out to your staff and things are much safer than they were, of course, you know, we are seeing a return to office across Australia and we've come out of it in quite a resilient position relative to the rest of the world and from where we were even three months ago. Spencer, I would say that I am far more optimistic about what it means for real estate. I mean, I remember seeing an article written about Manhattan it was the death of office and the population all moving out of the cities and in the US. And I think that's similar rhetoric was coming from the media here, but we've definitely seen that turn around.

Spencer Levy

Amanda, what's your perspective?

Amanda Steele

Look, it's a great position to be in. When I reflect back on where we were this time last year, I think we all thought we were going to be dead or out of a job, possibly not in that order, but possibly in that order. So we have absolutely turned it around in Australia, most of our cases, and there's very few coming from Australians who are being repatriated back to Australia. So the local transmission is minimal and it's coming from our quarantine hotels. I feel very optimistic, like Carmel, about the actual office environment. When I look at the activity in our market at the moment, it's unbelievable. And even going out at night, like the amount of people on the streets who are going back out and enjoying our incredible recreation and food and beverage in Australia, we're in a great position.

Carmel Hourigan

Just an example of that. Last week I was down in Melbourne for the whole week seeing investors, and Melbourne's had a really bad time in terms of lockdowns compared to the rest of Australia. And the comedy festival was on. And Australians love to have a bit of a joke. But, you know, really, I was down there with my husband and it was like it was New Year's Eve. That's how many people were on the street wanting to get out and actually be with others. And I think that is the message that I would give. I think, you know, humans love to be with each other. They've missed being together. And I think that is one of the underlying reasons why I continue to remain very optimistic about CBDs and cities around the world and also office.

Spencer Levy

Well, I hate to divert this, but I had to Google, who are the best Australian comedians of all time. And the list and the list that came up was Tim Minchin, Adam Hills, Barry Humphries, Jim Jefferies, Chris Lily, Wil Anderson, Carl Barron. And these ringing a bell to you.

Carmel Hourigan

Yeah, I know some of them. I don't know all of them, though.

Spencer Levy

Well, we know Hugh Jackman. He's not a comedian, but he's kind of does a lot of things.

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Carmel Hourigan

He's the all-round fella. Yeah. Like him to.

Spencer Levy

When in doubt in Australia, say, Hugh Jackman. And because he's probably the best singer, dancer, actor of the whole deal.

Carmel Hourigan

You know I was listening to a Hugh Jackman song this morning.

Spencer Levy:

Is that right.

Carmel Hourigan

That's right.

Amanda Steele

You revealed your taste there, Carmel.

Carmel Hourigan:

I did.

Spencer Levy

I would love to get your thoughts. And also I'd like to just make our audience aware that you were involved with the production of a piece called Back to the Office Global Lessons Learned from Australia's Property Managers, which should be coming out shortly. I would love to hear more about your experience with people going back in a little bit about the article.

Amanda Steele

Yes. Thank you, Spencer. We've written the article actually, because we've had so much interest from the Northern Hemisphere on what it's like to be back into the office and how to encourage people back into the office. I've been involved in lots of these webinars and sessions with our colleagues in the north, particularly around what the risks were, what we've learned, what lessons we've learned along the way. I think if we really condense it, it's around building the confidence and we're building confidence through that hygiene and sanitation and making sure that's very visible, ensuring that we're adaptable, that we can go in and out of the office as confident as we are in Australia, because we do have those spikes where we have to shut down certain states or locations. And building that adaptability in how we get people in and out of the office is critical. And then the positive experience and that positive experience is probably the biggest lesson that we've had in Australia that I would suggest that people really look at in the Northern Hemisphere, that experience of the first day to work when you were coming back in. It's not just the first day for everyone. That first day of work extends out over 12 months. You know, it's a slow grower back into the office. So how you are providing that experience is critical?

Spencer Levy

Well, to quote the great Australian band in INXS, would you say that the office. Is the office giving you what you need?

Carmel Hourigan

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Oh, very good. It's good. It's just on that giving it what we need. And I think, you know, as landlords, we've had to change and we've had to work out new ways of getting people excited to come back to the office. And there has been a bit of a void as well in terms of what leaders want to do. And leaders have needed our help to sort of say, you know, what do we do? How do we get people back? My staff have become maybe they've become used to being at home. And someone said to me once, it doesn't take much to change a habit. I think it takes six weeks. Well, some people have been in lockdown in some states, and you would have seen that as well, Spencer, in the US and they've been in lockdown for months. So these, you know, patterns and behaviors now that have sort of been embedded in people. So we do need to act differently and be very proactive and Amanda's right, we need to be doing things in different ways to encourage people back and make them feel good about coming back.

Spencer Levy

Well, I think the corporate leaders job is right in front of them to find ways that never tears us apart.

Carmel Hourigan

Oh, gosh. Another in INXS hit. I love it.

Spencer Levy

But I want to go back now before we divert to Australian comedians again, this talk about some of the adjectives you use, resilient, optimistic. You know, these are the words we're not hearing in most places in America. There are some places in America where we're hearing those words more. They're typically in Texas or in Florida or in Tennessee. But can we put some numbers behind that? Because I'd just like to just understand how many people are back in the office versus what it was, pre pandemic, mass transit, that sort of thing. So Carmel, what's your perspective?

Carmel Hourigan

Yeah, so we have an association here called the Property Council of Australia. I would say the majority of institutional real estate firms and a number of other smaller real estate companies in Australia are members of that. And they've been tracking return to work numbers for some time now. And what we've seen is, I think around December last year in 2020 those numbers were down sort of around that twenty five, 40 per cent mark. And I think the last set of numbers that we saw we were seeing those up above 50 per cent in some states, depending on how badly the pandemic hit. They were up and around the 60 to 70 markets of Brisbane or Queensland and Western Australia have done much better than the other states in terms of that very hard closed borders, very disciplined in the way they've handled the pandemic, although we are having a slight breakout in Western Australia at the moment. So they've been coming back to work, which is good. But then in terms of Sydney and Melbourne, there's sort of been sitting around that 40 to 50 per cent mark, but have significantly increased over the last sort of six weeks. And I think one of the fundamental changes that we've seen in those two states, which is where they are our gateway cities, and that is the bulk of the office supply is in those two cities, is that the government has come out now and told their staff they will be coming back to the office. And that sort of started with three days a week. So a very concerted push by the government major occupier of space to actually get people back into the city.

Spencer Levy

Amanda, I'd love to get your perspective, given that you're running the property

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management in that region, what have you done from a property management perspective to facilitate to make it easier for people to come back?

Amanda Steele:

Yes, and it's really important because that experience is critical, that first experience of returning to the office is really critical. But to encourage people back in property management, we've been very lucky. In fact, we worked very closely with Charter Hall around developing our technology, which is called Host, which might be known to a lot of your listeners, which is CBRE's technology to engage tenants within a building when the building is operating. We've used that during COVID to show people how the building is being cleaned, to communicate to people how they can come back into the workplace and feel safe. So really, really strong visual images around cleanliness and hygiene, that's really critical. But also the balance there around it not being so scary. Like you don't want those terrifying signs around, you know, COVID aware where you want it to be measured in line with what the government regulations are to inform people to keep that distance, that physical distance. But also you want that experience to be positive. I think one of the lessons we've learned in Australia that might be useful for those in the Northern Hemisphere is we expected people to rush back into the office the day that the offices were opened. And so we were planning very strongly for that first day back. And that first day back lasts longer than a year because people are really looking at that flexibility and starting back into the office at different times. So providing a positive experience in each of the offices that we manage has been critical. And it's more than cupcakes and coffee. It's around wellbeing and health and art and music and all kinds of different ways to activate space so that people feel enticed back into the office.

Spencer Levy

And maybe Australia comedians.

Amanda Steele:

Yes, and Australian comedians. That's right.

Carmel Hourigan

But I might jump in there because we recently spoke to one of our major tenants. They are certainly one of the larger tenants who are not asking their staff to generally come back to the office. They're letting their staff work where they want to, but waiting to see how this will play out over the next few months. So that was sort of four months ago. And six weeks ago they came and spoke to me about, well, how can you help us activate our foyers in all of our office buildings? We would like to get our people back to the office. We would like to get them back sort of two to three days a week to start with. Can you help us? Can we do a national initiative? And so we're seeing not only Charter Hall of the world have been doing ads on, you know, come back and then is right. So we've got people and experience people just working on those type of initiatives.

Spencer Levy

Does the physical office change much post-COVID? Is it more is the future more like the past than we think?

Amanda Steele

Yeah, I mean, I think there are some things that will be different and something that will be the same. I think short term people had a lot of expectation that the lifts were going to be a massive problem. You know, what are we going to do with these lifts? And we were able to

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adapt some of that technology to Host technology so that people could book lift spaces. So that had that confidence that they weren't going to be in a crowded lobby. What we found, actually, is that lifts were not a problem for us. People were very comfortable with the physical distancing. People were very comfortable taking their time. So all of that focus around the fear of lifts wasn't worth it. So if that's going to make your listeners feel more comfortable in the Northern Hemisphere, they should. I think we'll have a short term hybrid office where you've got that frustration of some people being physically back, some people still being on the meetings. I can speak for myself and say that I don't ever really want to be on another meeting when I can be face to face. It's just so much more enjoyable. But we are hearing from our clients that they want more of those small breakout spaces for Zoom meetings, but bigger collaborative spaces, because that's what the office is being used for. We don't need an office to answer emails. We do that on our phone living room when our husbands are watching boring Netflix shows. But we do need an office for collaboration and meeting space.

Carmel Hourigan

Look, I think from a physical office space point of view, workspace ratios are changing. We lived in the last decade where we saw all the space workspace come right in tight and now it feels like they're expanding again. And a lot of the briefs that we're seeing in the market for large tenants, because we are seeing some big briefs in the Australian market, provides for tenants. They're moving back out to that sort of one to 10. We're not seeing one to eight anymore, which is interesting. I think the fixed desk policy is sort of coming back and that's about wellness and hygiene. And you know that no longer are you sort of having this floating situation in desks. So for our office, for example, you know, both in Melbourne and in Sydney, we're using bookable systems, which we've never had to use before. You can book a desk and you're staying at a desk for the whole day and then it's a deep clean at the end of the day. And then when you talk to tenants, I'm not seeing huge change in office space at all at the moment. Most of them are just saying, I want more flexibility. I want maybe a midterm contraction. Right. Or mid-term expansion. Right. So they definitely want to see that. We were seeing that before COVID. But now we're seeing it is, I think, more standard. And I think landlords are saying, OK, yeah, we understand. You know, we're in a situation where not everyone understands what the workspace will look like and the workforce will look like over the next sort of three or four years. So we understand why you'd want that. So that's pretty typical, I think, now. And then, of course, there's, you know, how much of the actual building will be shed or third space, the space where they can go and use it, it's available to the tenants. It's bookable. It's an additional few meeting rooms. You know, it's a conference center that that type of thing is what our tenants are asking us for.

Spencer Levy

We're hearing that in the United States, too, and that the typical office tenant in the U.S. wants to call it 25 percent excess space for growth, they now like to cut that down to 10 to 15 and make the landlord give them flex space for the difference.

Carmel Hourigan

I might just jump in there as well, because just know, talking to tenants and CEOs in the market, what we are seeing is from a leadership point of view, people are definitely recognizing now that, yes, we like the idea of flexibility. We were surprised about how well we operated in that crisis using Zoom and Teams. But we actually want to be together to have that collaboration. And we've recently done a pre-commitment for a major office tower in the middle of COVID. If you think about that, it was about we need people to be collaborating. If we want to be innovative, we can't always do that remotely. So we are

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seeing interesting, you know, those tech firms who are behind all this flexibility in this new ways of working, to a certain extent, actually deciding to come back together and commit to more space.

Amanda Steele

I was just going to say that that collaboration piece has been the focus for our clients. They're wanting to see, you know, what the fit out needs to be to encourage that collaboration, what the lobby space, what the facilities need to be. And when you do get back into the office, and we're very fortunate in Australia that we are back into the office, what you realize is that more infectious than COVID is collaboration. People love to be back together and collaborating together and how we can facilitate that in the office, retail and industrial environment is critical for the success of our industry.

Carmel Hourigan

We've actually had to take more space to get people back into the office. So that's something else we can talk about because I think that will have an impact as well. But you actually don't think about COVID on a daily basis anymore, whereas when I was working constantly at home during COVID it was the world had changed and we were in this COVID new dynamic. Now I'm back in the office. I can go the whole day and not have thought about COVID, which for people around the world is incredible. Right, because that's not the way it's working. You know, a lot of countries around the world and we're seeing some really terrible things at the moment in India and so on. But I think it's something to do with the, you know, the psyche of being back together and getting on with it. So I think it's incredibly healthy to have at least some of that connection with others and not be always on your own.

Spencer Levy

No doubt about it. I want to go back to what we suggested just a moment ago regarding, I think, something you said, Carmel, that maybe the world isn't quite as different as we think. And you should know, here's a economics joke for you. The four most dangerous words in economics are this time is different. And when somebody says that you should always grab your wallet and run out of the room screaming. But what I heard you say, Carmel, is that maybe it isn't quite as different as we think. Did I hear you right?

Carmel Hourigan

Yeah. Look, I think yes, we've been through a global pandemic. Yes. We've learned some serious lessons as a world. And I think, yes, it has made a difference. There's some things which have probably been imprinted in our brain that we're more concerned with hygiene, wellness, our families. What's important to life is put things in perspective for us. But in terms of what's happening in real estate and the economy, I think that the synchronized fiscal spend, monetary spend, that programs that have happened around the world has probably left us in a much better economic position than we ever dreamed we would be. And at this point, and from a growth perspective, I think the starting point is much stronger than we thought. So, you know, we are sort of getting on with it. And the Australian investment market is a lot of activity. I mean, you know, we will do billions of transactions in this year. We were back at work in July 2020, if you can think about that, on a skeleton staff. And then as soon as we could get back, we were back. So there is opportunity. We are definitely seeing even in the last three weeks, I've heard some major global players pension funds tell us that we are now going back to looking at office, so. I think we call it the lucky seat. That's what we call it in here, some people, you know, the logistics businesses around the world and industrial, as we know, are certainly in the lucky seat at the moment. And they are having a great time. But

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we're seeing pricing as a result of that in the Australian market and around the world hit record levels in terms of cap rates. And when you start to look at that on a relative basis to the other sectors, I think, and how you get set importantly in those sectors at the right pricing, I think we are now starting to see a swing back to potentially other sectors as we see better results coming through in a better economy and better employment data coming through in terms of the office sector. I'm not saying it's going to be easy for the office sector over the next 12 months to years because it's still, you know, demand issues and people are still sorting that thing out. What are we going to do with space? But we're dealing from an investment point of view and capital flow, seeing it swing back to office.

Spencer Levy

Amanda, let's go back to the question I asked Carmel a moment ago about the this time is different moment now, recognizing that in the short term, we're clearly going to have much greater focus on wellness, janitorial services, things like that. Is that a permanent shift, in your opinion, or is that short term?

Amanda Steele

I think it's a permanent shift. I think we've had that death response triggered with COVID. And I think that the long term shadow of that is that we will have a real focus around wellness and hygiene. I think that we sanitize wellness or sanitize the issue by calling it wellness. I think a lot of that is mental health. And I think that the difficult year we had last year has really provoked a significant mental health challenge for the broader community. And I think they are looking for resources and ways to address those mental health challenges. And that extends into how you manage a building that extends into the resources and space you provide to assist people with their mental health challenges. Mental health is something that people are now talking about more openly and confidently. The fact that it's dressed up as wellness, I think we'll see that shift to mental and physical health. I think people will become more comfortable with that. So I think that will remain. I think flexibility will remain, but not to the extent that we've seen. I think we get hung up on how many days a week are people going to be in the office. But actually what people want is I want to start at a different time. I want to drop the kids to school or I want to go to the gym of a morning. I might want to be at work at 11 o'clock till seven o'clock, not just Monday, Tuesday, Wednesday. So I think that that flexibility will remain. Everyone's hung up on Fridays, being vacant at the moment in Australia, although the pubs are busy of an afternoon. Spencer, it's extraordinary.

Spencer Levy

In terms of these permanent shifts and wellness brings up another issue, brings up what we call in the United States ESG plus R. E environmental, social governance, resilience, and how that impacts the way you design your building, how it impacts how much you attract capital. So, Amanda, what's your point of view on that?

Amanda Steele

We've seen such a spike in our clients asking us for assistance around ESG and R, phenomenal. And I've worked in this space for a long time and sustainability, as it was called six years before I took over the property management business. So we see these spikes in sustainability, in times of crisis, the global financial crisis we saw a spike in people looking particularly at the environmental sustainability focus and particularly around efficiency. How can I run my building more efficiently? So we're seeing a spike in that again with investor requirements and questions for our landlord community. 74 percent increase in ESG questions came through last year according to KPMG, doesn't surprise me because of the

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amount of information we're being asked to provide for our clients. So I think that ESG and R really speaks to that holistic approach to how our clients can manage their space, their portfolio, their assets. But the environmental piece remains important. It has shifted from just energy, not surprisingly, to indoor environment quality so that air quality, natural air flow daylighting has become a big focus as well. I love the fact that we've extended into the social space, and that's become a really critical focus for our clients, too.

Carmel Hourigan:

It feels like in the last five days it's all I've spoken about is ESG and I was talking about it before, but I don't know what's happened in the last five days in my life that ESG has become a major topic. And we've had a strategy day and we had a big investor come and talk to the leadership team for office, and they talked about leadership in ESG and what they were looking for and how it's exponentially important to them now. And we've had, you know, in terms of the S and the G, we've had a few issues in terms of governance in the Australian corporate sector that have blown up and has seen the demise of companies. And I suppose we talk about those as examples of how things can turn out if you actually don't act appropriately as a corporate and what is that we call the pub test, you know, what are the things that we are expected as corporate leaders in Australia, how we expected to behave even outside of COVID corporate? We've had a number of Senate inquiries. We've had investigations into sexual harassment, all of these things now, domestic violence, all of these things are areas that corporates are being asked to step up and play a part in in terms of leadership. And we wouldn't have seen that 10 to 20 years ago. But that's been exponential and on the environment side. Honestly, I was talking to the head of distribution the other day, the number of ESG surveys that are coming in at a rapid rate is just amazing. I mean, we can't keep up with the number of ESG surveys that we're doing. We even talked about, you know, do we need to get someone just to fill in the surveys that we've done? So it's a board issue. It's a senior leadership team issue. Everyone in Australia is trying to take a position of how do you actually push forward in terms of ESG? We've got targets out there to be carbon neutral. You people are talking about can you bring them forward? And then there's an expectation that some funds will go carbon neutral right now, they may have had a target 2030. But from an investor point of view, they may be trying to actually bring that forward to 2025. And some have gone carbon neutral this year, saying the game and how it's changed and what investors want to say. And on the social side, look, I totally agree with everything Amanda has been saying. We as a corporation sign up to the one per cent pledge, which is where you donate one percent of your profits to charities and social enterprises and so on. And that is something that we have been doing for some time. But that's increasingly important.

Spencer Levy

What I think is interesting today is that because I think we're still relatively early in the S part of ESG, when you speak to most institutional investors, they're not doing it because they're focused on a return on investment has to be the same, whether it's ESG complying or not. But the other thing we're seeing now is how they're doing the targeting on the S based upon the number of women and minorities you hire at your company or in your subsidiaries. And I think this brings up the perfect point that I'm just thrilled to have two of the senior leaders of the Australian real estate industry on this call, two women. It shouldn't be extraordinary, but it is in our industry today somewhat unusual, though I will say that two weeks ago we had a great episode with three of the senior female leaders in New York City Mary Anne Tighe, Darcy Stacom and Annette Healy. If you don't mind me asking, was starting with you, Amanda, being a woman leader in real estate in Australia. Tell me about that.

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Amanda Steele

I'm just delighted that you uses my name in the same sentence as Mary Ann Tighe, so I have hit the high watermark. So that's terrific. Thank you, Spencer. Look, we've come an enormous way from when I started in a leadership position in Australia and Carmel I'm sure that's absolutely true for you. It's not as common anymore to be the only woman in the room, although it was for a long part of my career. It is a huge focus for our Australian business and our Australian clients and also for us and our supply chain. I think that on the back of COVID, if I look at the type of leadership style that is associated with women, we're in a really good position that EQ focus, you know, that holistic focus on management, authenticity, leadership styles that are often attributed generalization to women. And I think that we will absolutely rise through the ranks at a rapid rate. So I'm delighted in this industry that I do have the support of a lot of great women. Carmel and I are involved, a whole host of different women's networks and property, and they're the smartest people in the room and the most fun.

Carmel Hourigan

Yeah, that's right. We are the most fun.

Spencer Levy

Carmel, what's your point of view?

Carmel Hourigan

Yeah, look, I think it's just been an incredible journey for me personally from starting when I was at university in Australia and we did a land economics course evaluation course and there weren't many women. I think there were one hundred and twenty people in the course of which maybe 15 were women at that stage. And then not all of us finished. I think there's been a concerted effort in the Australian market to change that dynamic. And I'll just tell a story. A few years ago, I was asked to go on a UN delegation to talk about Australia's experience in bringing more women into senior positions in real estate. And we were asked at that conference, the UN women's conference, what is the game changer? And I think it's because the Australian real estate sector has got together as one sector and the CEOs and the top sort of 20 CEOs have actually decided they're going to act in unison, if you like, about how they're going to have some guidelines across the sector on how they're going to operate and how are they going to promote and increase the talent pool for female executives in real estate. And so I think that united front is nowhere to hide, I suppose has been the game changer for us. And I don't see that in other sectors in the Australian market. And as a result, we do have a number of female CEOs in real estate. And I would say from personal point of view, I've been very lucky. I've had some fantastic male mentors who have helped me through the real estate sector. And, you know, I think as a female. You've got to be incredibly careful about where you want to work. You know, you generally want to be very value driven and you actually want to work for great CEOs who respect women and actually want to promote women. And I think I've made good choices. And I say to a lot of younger women in the industry. Be very mindful and think about where you want to go and what your track is going to be, you know, don't always go for the most money, go for the right track. Think about it carefully.

Spencer Levy

The longer you're in the business, the more you realize that happiness matters a lot more than most other factors. And so I agree with you on that totally. So let me shift gears for just a moment and then we'll wrap up with some final thoughts. The United States and its relationship with China has gotten more complicated over the years. China for many years

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was the number one investor in U.S. real estate. And Australia has an even deeper relationship in many ways with China, given your proximity and their use of Australian natural resources. How important are they to the future of the Australian real estate industry from investment or otherwise? Carmel, what about investors in your funds and your assets?

Carmel Hourigan

Yeah, look, you know, it's interesting. Chinese investment has not been as great over the last few years and in fact, over the last few years, there was a time when they were taking money out of the Australian real estate sector and they really have not come in in a big way of recent times. So that dynamic has certainly changed. And I think the biggest risk is there is tension. You know, we are effectively an Asian country, and that is important for us to understand our position in the world. We obviously have very strong ties to the US and will continue to have those. But we also need to operate down here an effective way. And we have a role to play in terms of leadership of this region and obviously sometimes there's tension in terms of China. So for me, it's more about the economic impact. You know, if the relationship sort of went south from here, you know, I personally don't think it's ever going to be a risk where it's going to actually deteriorate to a really scary level, if you like. But I suppose the risk is what impact could it have? They are our biggest trading partner. And I think we just need to be very careful about the impact that could have on the Australian economy.

Spencer Levy

So let's all take out our crystal balls and sort of wrap up question. We're sitting here in Australia having a nice meal and maybe a beer, and we are looking back five years and where we are today, how different does the office sector look five years from now than today in terms of demand, in terms of flex space or otherwise? Amanda, your thoughts.

Amanda Steele

I think we'll have more flex space. I think we've started down that journey in Australia and I think we will consolidate that over the next five years, will have a much higher quality flex space that is built into the landlord offering. I think that the flexibility will extend into the ways we work, not just the places we work in. I think it will be a far more focused on inclusivity the workplace, and I think that's a great outcome. And I think the investor demand, particularly in this market, will be high because of the quality of assets and the sophistication of the landlord market here.

Carmel Hourigan

I would agree with Amanda on her thoughts around how the office space in the work space will be. So I agree there will be a level of more flexibility. I don't think that people will be working predominantly from home. They will be working in the office. So I expect to see that. I think we are already seeing and we'll continue to see this change in the dynamic of how much core space I need as a tenant versus how much flex and that flex space will potentially result in more shared space and third space, if you like, from and we are all today, even today we're talking about what does that look like for Charter Hall and what how do we want that to present to the market? But in terms of ESG, I think that the ESG side of real estate will just become more and more important, although I would say that the Australian market in real estate, a ladies in that around the world and I think obviously there's great examples in the US as well. But we would expect to see very high scores continuing to come from the GRISBY surveys and people pushing the limits in terms of how they go to get to carbon neutral in our funds. But I think from a real estate, from an investment point of view, you're going to see more built to core. You're going to see higher quality assets being

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built to attract tenants into this new age space, know more collaborative, you know, the wellness side, the services, the touchless amenity that you'll see. So we expect to see more build to core. And as a business, we are certainly locking ourselves into that. And we're having strong demand from clients and we expect to see continuing low rates in the Australian market. Although there has been some inflationary discussion around the world, we still expect to be effectively pretty low in terms of inflation and interest rates as a result, and therefore real assets will continue to be attractive for pension funds around the world.

Spencer Levy

Well, I agree with you on that, and the reason is because even though we have a big increase in the money supply today, aging demographic, too much cheap money, too much cheap energy, too much cheap labor and innovation, it's yeah, technology. Innovation itself is actually deflationary.

Carmel Hourigan

Correct. Correct. Yeah. It's interesting you said that depends because I will say one of the smartest investors I've ever met came to talk to us a few months ago, actually, you know, really in the middle of COVID. And he said exactly that. It's not low growth for a bit longer. It's lower growth forever, and you need to be able to operate within that environment. You've got to create value in that environment. And now we're analyzing the COVID experience and all the other services and the lens of ESG on top of that. So I think it's a really exciting time to be running an office portfolio, particularly in the Australian market. I think the world is our oyster. We can do new things. We've got great service providers like Amanda. She's fantastic to work with and CBRE, we love it. So I think we can create some really strong value for our investors over the next five years.

Spencer Levy

I completely agree. So final final question: INXS, AC/DC, Men at Work or other as the greatest Australian band of all time, Amanda.

Amanda Steele

INXS, so easy.

Carmel Hourigan

INXS.

Spencer Levy

INXS. There we go.

Carmel Hourigan

Not only are they cool, but hello, very sexy as well.

Spencer Levy

Well, on behalf of The Weekly Take. I am delighted to have been joined by Carmel Hourigan, the Charter Hall Office CEO. Carmel, thank you.

Carmel Hourigan

Thank you very much, Spencer. Thank you, Amanda.

Spencer Levy

And then, of course, we have Amanda Steele, our colleague, executive managing director

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of CBRE Property Management Pacific. Amanda, thank you.

Amanda Steele

Thank you, Spencer. It was very enjoyable, as I knew it would be.

Spencer Levy

Read more about Australia and the topic of today's show. Check out [CBRE.com/TheWayForward](https://www.cbre.com/TheWayForward), among other insights you'll find the article that Amanda co-authored, which we referenced at the top of the show. It's called [Back to the Office Global Lessons Learned from Australia's Property Managers](#). For more on our show, please visit [CBRE.com/TheWeeklyTake](https://www.cbre.com/TheWeeklyTake), let us know your feedback. And as always, subscribe rate and review us wherever you listen. Thanks for joining us. I'm Spencer Levy. Be smart. Be safe. Be well.